

THE COMPETITIVE EDGE

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FOCUS WHERE IT COUNTS

To maximize your business growth, focus on your best offerings, market segments, and customers. To treat all offerings, market segments, and customers the same will limit your business growth.

To focus on the best, you need to know which are the best. Identify the best by knowing the sales and true profit margin for each of your offerings, market segments, and customer types. Many businesses lack much of this data. And the margin data, if available, is often inaccurate because of conventional accounting practices. The profit-margin values need to be developed from activity-based accounting analysis.

Once you have reasonably good sales and profit margin data, use this information to rank your offerings by sales and profit margin. Do the same for market segments and customers. You will probably find that 20% of the offerings, market segments, or customers generate 80% of sales. It's also true for profits, but be aware that the 20% creating 80% of the profits may not be the same as the 20% that lead to 80% of the sales.

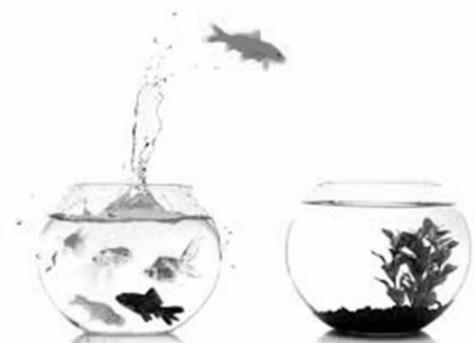
Once you have sales and margin data, they can be used to identify actions which have a good chance of increasing revenues and/or profits. Let's look at some these actions.

FOCUS ON THE BEST

Our first recommendation: narrow the focus. Whether its offerings, market segments, or customers, focus most attention and resources on the top 20%, focus some on improving the next 20%, and begin eliminating all offerings, market segments, or customers with low or negative profit margins.

Illinois Tool Works has used this approach to produce consistent, healthy growth for nearly four decades. Plastic-injection molder Nypro, as noted in our March 2020 newsletter, decided to do focus on top customers in 1990, leading to 30 years of exceptional growth.

Doing this will not be easy. It's like cleaning out a garage or a closet. Each thing has some emotional value, some connections for someone who will protest and argue against the clearing out. Use those arguments to uncover rating information you may have overlooked. In a few cases, it will lead to retention. But don't let the opposition lead to any foot-dragging. Be relentless. The result: a more manageable, more profitable business.



SHARPEN THE FOCUS ON OFFERINGS

Sharpen focus on offerings to uncover profit and growth improvement initiatives.

Here are three to consider:

1. Price offerings based on the offering's degree of uniqueness, rather than setting prices for all offerings using some simple cost-plus formula. Intel has done this for over 20 years. CEO Donald Washkewicz did so at Parker Hannifin Corp. in 2002. Prior to the change, Parker Hannifin had used a cost-plus formula for all prices. Washkewicz created five product categories, based on degree of uniqueness, then raised prices in a category proportional to its uniqueness. Result: profits and the stock price doubled in 5 years.
2. Charge what your offerings are worth. Identify customer types buying your different offerings and make sure the price reflects the value each customer type perceives. Stapler maker Swingline did this. It identified one segment of demanding customers who wanted a stapler that could handle heavy-duty use without breaking down. Swingline had such a stapler. They raised its price and targeted marketing and merchandising on the demanding customers. They did the same targeted action for other customer types. Sales of electronic staplers, which had been flat, doubled within the next few months.
3. Exploit virtual monopolies. Find your offerings that are virtual monopolies, meaning they are the only choice for certain sets of customers. Make sure those offerings are priced accordingly and not with a commodity-product formula. Reinforce the pricing with a customer-relations program that communicates the offering's compelling value.

IMPROVE CUSTOMER FOCUS

Sharpen focus on customers to uncover profit and growth initiatives like the following:

1. Focus on the best customers and serve them without compromise. In 2000, PetSmart went from flat sales to great growth by doing this.
2. Use something like Amazon Prime or British retailer Tesco's Clubcard to increase customer retention and share of wallet.
3. Reduce resources used to serve poor customers as Fidelity did by directing such customers to Internet-based service.

HOW TO MAKE IT HAPPEN

The detailed sales and profit data we recommend developing provides a rich source of growth and profit ideas. Use the data in a structured brainstorming session to identify, then prioritize, initiatives like the ones described in this newsletter. Build and carry out a plan to launch the top-priority initiatives. The benefits to your business could be significant.